THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY AND EXHIBITS

OF

CAREY FLYNT

DOCKET NO. 2005-6-G

Annual Review of Purchased Gas Adjustment (PGA) and Gas Purchasing Policies

DIRECT TESTIMONY OF
CAREY FLYNT
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2005-6-G

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Carey Flynt. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina as Manager of the Gas Department for the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration, with a major in Accounting from the University of South Carolina in Columbia in 1975. I was employed at that time in the electric and gas utility industry and have twenty five years experience in this field. I have testified on numerous occasions before the Public Service Commission of South Carolina ("Commission") in conjunction with natural gas issues.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to address the purchasing policies of South Carolina Pipeline Corporation ("SCPC" or the "Company"), including the hedging program, the Purchased Gas Adjustment ("PGA"), and Industrial Sales Program Rider ("ISPR") approved for the Company.

Q. PLEASE ADDRESS THE PRESENT PURCHASING POLICIES OF THE COMPANY.

A. SCPC's supplies consist of purchases from independent suppliers for firm and interruptible service. The Company also operates two (2) liquefied natural gas ("LNG") facilities and utilizes storage on the interstate systems. Because of Federal Energy

Regulatory Commission ("FERC") Order 636 the Company now contracts for capacity on the interstate pipelines. SCPC's peak-day design for the 2003-2004 winter period was based on a combination of direct firm and resale firm loads. This volume was 21,902 DTS/day for direct firm plus 303,058 DTS/day for resale and 43,424 for resale firm transportation customers totaling 368,384 DTS/day. To meet the contracted firm requirements of its direct firm and sale-for-resale customers, SCPC has contracted for capacity with Southern Natural Gas Company ("Southern") and Transcontinental Gas Pipe Line Corporation ("Transco"). The contracted capacity on the Southern system is 191,948 DTs/day and on the Transco system is 108,676 DTs/day. Additionally, the Company owns and operates LNG facilities at Bushy Park near Moncks Corner and near the town of Salley. Shown in the chart below are the inventory levels of the two LNG facilities at October 31, 2004. These facilities are used primarily as a mechanism to help meet firm peak loads on the system as well as providing a backup supply of gas in emergency situations. There are limitations to the amount of LNG that can be vaporized from these facilities. The output for the Bushy Park facility is 62,844 DTs/day and the output for the Salley facility is 48,389 DTs per day.

LNG Facility	**Capacity**	**Inventory**	**Percent of Capacity**
	MCF	MCF	
Bushy Park	980,000	773,750	78.95%
Salley	900,000	835,227	92.80%
Total	1,880,000	1,608,977	85.58%

Q. WHAT IS THE REVIEW PERIOD FOR THIS PROCEEDING?

A. ORS's audit encompassed the twelve-month period January 2004 through December 2004.

Q. FOR THE PERIOD UNDER EXAMINATION IN THIS PROCEEDING, ARE PRUDENT JUDGMENTS BEING MADE TO MEET THE NEEDS OF THE COMPANY'S CUSTOMERS?

A. It is ORS's conclusion that SCPC continues to demonstrate that it places a high level of importance on securing reliable gas supplies and on making prudent decisions in purchasing its gas supplies to balance its customer profile and system requirements with existing supply and capacity options. No supply problems were noted on the Company's system during the past winter period.

SCPC has contract storage with both Transco and Southern. This storage allows SCPC to add additional volumes into its system when needed and to balance supply with system load requirements. Shown in the chart below are the inventory levels of off-system storage at October 31, 2004 on the Transco and Southern Systems respectively.

Off-System Storage	**Capacity**	**Inventory**	**Percent of Capacity**
	DT's	DT's	
Transco System	1,434,850	1,131,571	78.86%
Southern System	5,167,164	4,055,456	78.49%
Total	6,602,014	5,187,027	78.57%

One gauge that ORS uses in its determination of prudence is that the Company has adequate levels of natural gas in storage as it enters the winter months to meet the design day requirements of the system. In the most recent annual review of purchasing policies of SCPC (Docket No. 2004-6-G), the Commission Staff addressed a concern as to whether SCPC would be able to meet its design day expectations with the low storage levels it had of LNG. At the beginning of the 2003-2004 winter period, (November 1, 2003) on-system LNG inventory levels at the Bushy Park and Salley facilities were at 41.73% and 90.94%, respectively. At the beginning of the most recent winter period on-system LNG inventory levels at the Bushy Park and Salley facilities were 78.95% and 92.80%, respectively. During the month of November 2004, SCPC continued liquefaction at the Bushy Park facility, and on December 1, 2004, the on-system LNG inventory level at the Bushy Park facility was 97.04%. It is ORS's position that SCPC entered the 2004-2005 winter period with sufficient and adequate on-system LNG reserves and off-system natural gas supplies in storage facilities located on the Southern and Transco systems.

Q. DID THE COMPANY OBTAIN GAS SUPPLIES AT JUST AND REASONABLE COST FOR THE REVIEW PERIOD?

A. Yes. The ORS is responsible for monitoring the accuracy of capacity and gas costs that are recovered through the Company's purchased gas adjustment clause. In order to fulfill this responsibility, it is necessary to sample supplier invoices annually. ORS verified through its audit that SCPC recorded and recovered its actual gas purchases through the cost of gas calculation as prescribed in the Commission approved Purchased Gas Adjustment Clause.

SCPC's natural gas commodity purchases were prudent. This was determined by comparing the purchased price of the commodity natural gas to the daily range of market indexed prices.

It is ORS's observation that SCPC exhibited its capabilities to secure gas supplies in a prudent manner and at reasonable costs. ORS observed that SCPC made substantial efforts in shopping for the lowest cost reliable supplies which were available to its system. During the review period, the Company exercised the following options to obtain a reliable supply of natural gas at reasonable costs:

1) Purchases of natural gas under term contracts that guaranteed the total delivery of supply.

2) Purchases of natural gas on the spot market.

The Company now contracts for capacity on the interstate pipelines in compliance with FERC Order 636." Additionally, the purchase of natural gas in the interstate markets has evolved into a transparent open market model with the pricing of supply contracts based on published indices of market prices. FERC Order 636 and its predecessor Order 436 were the first major steps in the deregulation of the interstate natural gas system. Unbundling of the commodity sales function from transportation and storage services resulted in removing interstate pipelines from monopolistic sales activity and allowed Local Distribution Companies ("LDCs") to choose their sales, transportation and storage providers. This action provided for the emergence of unregulated marketing of sales by producers as well as trading companies participating in natural gas sales. The unregulated market is the arena that local pipeline companies are functioning in today. This market can be described as both tremendously flexible and dynamic. SCPC's purchasing practices have evolved throughout this period to adapt to this environment.

Q. DOES THE COMPANY UTILIZE A HEDGING PROGRAM TO STABILIZE THE COST OF GAS?

A. Yes. The Company was granted approval to implement a hedging program on a trial basis in a pilot program. The pilot program allowed the Company to hedge on the futures market for a period of one year beginning June 19, 1995 and limited hedging to no more than 30% of SCPC's system supply gas.

Q. DOES COMMISSION ORDER NO. 97-477 SET FORTH THE CRITERIA FOR THE COMPANY'S CURRENT OPERATION OF ITS HEDGING PROGRAM?

A. Yes. Since its inception, the hedging program, has achieved the objective of improving cost predictability and reducing price risks by avoiding unexpected, radical cost changes that occur over short time periods in the gas spot market. The result of this program for the period under review is a net increase to cost of gas in the amount of $2,413,135. This includes trading gains/losses as well as expenses incurred in administering the program including commissions, software, subscriptions and data feed. The impact to the weighted average cost of gas resulting from Futures Transactions during the review period is identified on Audit Exhibit "JRJ-1." Since inception of the program in August 1995 through December 2004, the Hedging Program has resulted in a cumulative increase in the weighted average cost of gas in the amount of $6,650,332. ORS does not have any objections to the Company's proposal for continuation of the pilot program for another twelve-month period and to continue operation of the program at the presently approved level of 75% of system supply volumes.

Q. IS ORS RECOMMENDING THAT THE COMPANY INTRODUCE LOW COST GAS INTO THE WEIGHTED AVERAGE COST OF GAS?

A. Yes. Commission Order No. 91-1138 requires that the Company include in the weighted average cost of gas ("WACOG") an equivalent of 20,000 dekatherms/day on an annual basis of the lowest cost gas entering the Company's system. The Commission in each of the subsequent annual reviews has ordered the continuance of this requirement. ORS recommends that this practice be continued. The objective of this recommendation is to ensure that firm customers, receive a reasonable level of benefits from the lower cost gas entering SCPC's system.

Q. PLEASE DESCRIBE THE ISPR PROGRAM.

A. Beginning in the fall of 1982, natural gas utilities in South Carolina were faced with a combination of rising natural gas prices from Southern and Transco and the declining prices of alternate fuels. This combination resulted in SCPC experiencing a loss of natural gas sales to interruptible industrial customers with the capability to consume alternate fuels. Sales to interruptible customers contribute to the recovery of fixed cost, thus raising the concern that the loss of these sales would result in a long-term detriment to the remaining natural gas customers. This concern resulted in SCPC filing a petition with this Commission in April, 1983, for revision in its cost of gas adjustment calculations. SCPC petitioned the Commission for approval to revise its cost of gas adjustment calculations to enable them to compete with alternate fuels and mitigate the detrimental effects on residential, commercial, and firm industrial customers caused by the present loss of natural gas consumption to alternate fuels. In 1983, this Commission granted approval to these costs of gas adjustment calculations.

Q. SHOULD THE OPERATION OF THE COMPANY'S ISPR CONTINUE?

A. Yes. ORS believes the currently approved ISPR Program should be continued. The prices of alternate fuels used by the interruptible industrial customers remain very volatile, and the financial benefits of retaining the industrial load remain today.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.